SCS Agency
Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Rainey | Analyst: Roger Lackey | Bill Number: SB 2197

Related Bills: See Legislative History | Telephone: 845-3627 | Introduced Date: 02-20-98

Attorney: Doug Bramhall | Sponsor:

SUBJECT: PIT Rates/Increase Ceiling Of Each Bracket 10%

SUMMARY

This bill would increase the threshold amounts of each personal income tax bracket by 10%.

EFFECTIVE DATE

This bill would apply to taxable years beginning on or after January 1, 1998.

LEGISLATIVE HISTORY

AB 1461, SB 83 (1997), AB 955 (93/94), SB 169 (Stats. 1991, Ch. No. 117), SB 1674 (1992).

SPECIFIC FINDINGS

Existing state law establishes six tax brackets, which determine the rate at which an individual's income is taxed. The tax rates range from 1% to 9.3% and are organized into tax rate schedules which chart the taxable income threshold amounts applicable to each tax rate. The progressive tax structure results in only a portion of the taxable income being subject to each rate bracket.

An individual's taxable income passes to the higher marginal tax rate as their income increases. The result is a tax rate where that portion of income falling between each tax rate bracket is taxed at that specific rate until the taxable income exceeds the threshold amount of that rate until reaching the maximum 9.3% tax rate threshold. Only that portion of taxable income exceeding the 9.3% threshold is taxed at that rate. Thus, the average rate paid by all taxpayers is approximately 4%.

Existing state law requires the Franchise Tax Board (FTB) to index the tax brackets, the personal exemption credits, and the standard deduction each year based on the inflation rate. The indexed amounts for the 1998 tax year will not

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE ____ GOVERNOR'S APPOINTMENT

Board Position:	Agency Secretary Position:	GOVERNOR'S OFFICE USE
____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR ____X____ PENDING	____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR DEFER TO ____________	Position Approved ____ Position Disapproved ____ Position Noted ____
Department Director Date Gerald H. Goldberg 3/12/98	Agency Secretary Date	By: Date

be available until after August of 1998. However, the 1997 figures for a taxpayer filing single are:

If the taxable income is:	The Tax is:
Not over $5,016	1% of the amount over $0
Over $5,016 but not over $11,888	$50.16 plus 2% of the excess over $5,016
Over $11,888 but not over $18,761	$187.60 plus 4% of the excess over $11,888
Over $18,761 but not over $26,045	$462.52 plus 6% of the excess over $18,761
Over $26,045 but not over $32,916	$899.56 plus 8% of the excess over $26,045
Over $32,916	$1,449.24 plus 9.3% of the excess over $32,916

Existing state law also provides a personal income alternative minimum tax (AMT) rate of 7%. The AMT was established to ensure that no taxpayers with substantial economic income avoid any tax liability by using exclusions, deductions, and credits (tax preference items). In calculating AMT, a personal exemption deduction is subtracted from the alternative minimum taxable income (AMTI) in the following amounts: $57,260 for married taxpayers filing joint returns; $42,945 for individuals filing as either single or as a head of household; and $28,630 for married taxpayers filing separate returns. This exemption deduction is intended to preclude the application of complex AMT rules to taxpayers with few tax preference items.

This bill would increase the taxable income threshold amounts of the PIT tax rate brackets by 10%.

Implementation Considerations

This bill amends the income tax brackets for the taxable year beginning on January 1, 1987. Current law provides that tax brackets listed in current law shall be recomputed for each taxable year beginning on or after January 1, 1988. Therefore, the revised income tax brackets in this bill would need to be recomputed for each taxable year from 1988 to 1998. As a result, the author's intent of a 10% increase to the tax brackets may result in a larger increase than 10% for the 1998 taxable year. If it is the author's intent to provide only a 10% increase for the 1998 taxable year, the department staff is available to assist the author's staff with the necessary amendments.

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during normal annual update.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses under the Personal Income Tax Law are estimated as follows:

Beginning on or After January 1, 1998		
Assumed Enactment After June 30, 1998		
(in millions)		
1998-9	1999-0	2000-1
($1,525)	($1,170)	($1,240)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

Revenue losses under the Personal Income Tax Law would depend on the distribution of taxable incomes for taxpayers subject to taxation.

The following table indicates the revenue losses by taxable years. This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure. Some taxpayer behavior would be expected (i.e. reporting additional income due to tax reduction), but would be minor (gains less than $500,000 annually).

Taxable Years (in millions)		
1998	1999	2000
($1,070)	($1,140)	($1,210)

The estimate for the first fiscal year (1998-9) includes all of the 1998 tax year impact plus 40% of the 1999.

BOARD POSITION

Pending.